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USAID A/AA/LAC MARK SILVERMAN

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TAGS: [PGOV](#) [PREL](#) [ECON](#) [KCRM](#) [KDEM](#) [PA](#)
SUBJECT: PARAGUAY: INVESTIGATIVE TEAM UNCOVERS LARGE FRAUD
IN SCHOOL FOOD PROGRAM

Classified By: DCM MICHAEL J. FITZPATRICK; Reasons 1.4(b),(d)

¶1. (U) SUMMARY: The Controller General's investigative support unit, established with support from USAID/Paraguay, uncovered a scheme in the Education and Culture Ministry that involved the misuse and misappropriation of funds. Funds intended to provide basic food supplies for poor elementary school students were diverted into private coffers. The case could impact the standing of the Education Minister Blanca Ovelar, whom President Duarte has tapped as his preferred candidate to succeed him. END SUMMARY.

MAKING THE CASE

¶2. (SBU) Roy Rodgers Canas, Director of the support investigative unit in the Controller General's Office, briefed USAID February 21 on investigations being carried out by the unit utilizing new investigative procedures. USAID helped establish the unit to significantly facilitate the identification and preparation of corruption cases for action by the Attorney General. In particular, Rodgers described an in-depth investigation into a case involving the Ministry of Education and Culture (MEC) and its misappropriation of funds from the national nutritional complements program. The CG's report regarding the program covered 2005 and 2006 and included a total executed budget of approximately USD 3.5 million. This program was aimed at improving students performance and fighting drop out rates, by assuring the provision of basic food supplies (milk, flavored milk, beans, rice, and bread), to elementary school students of poor rural areas.

¶3. (U) Under this program, each of the beneficiary parents' school associations, similar to PTAs in the U.S., were supposed to assume substantial responsibility for implementation and oversight. MEC was in charge of selecting schools and controlling the execution of payments. Once a school was selected, and the parent's school association was registered at MEC, the Ministry was to provide funds to the associations based on the number of school students. The associations were supposed to directly purchase supplies and were obliged to provide vouchers within 60 days.

¶4. (U) In the course of its investigation of this program, investigators made many field trips to the countryside and interviewed parents and local school authorities to determine the modus operandi of MEC employees allegedly involved in criminal offenses. This process included the revision of forged documents, analyses of highly complicated internal procedures at the Ministry of Education, laboratory analysis to determine food quality, and unsuccessfully trying to obtain documents from Customs regarding imported food supplies.

SKIMMING CHECKS - AND THE MILK

¶5. (U) Based on auditing findings and the investigation, personnel from the investigative support unit determined that of 160 randomly selected endorsed checks, 106 were forged and never reached the parents, associations. Checks were directly deposited in bank accounts of four private business providers (Alimentos del Paraguay S.A.; Masily S.R.L.; Nutripan; and Cooperativas Colonias Unidas Ltda.), completely bypassing the associations, or they were cashed by unknown persons who forged signatures of representatives of these associations. In addition, findings reveal that other documents were also forged, among them, contracts and receipts.

¶6. (U) At the request of the CG's office, food supply kits provided under this program were analyzed for nutritional value by the Technological Center of the National University of Asuncion. This center found that the analyzed products were inferior to the quality standards established in Paraguayan legislation, as they contained lower protein and fat than the required minimum. The Center also concluded that the products provided were not adequate for elementary school children.

¶7. (U) Based on strong evidence collected and a sound presumption that crimes were committed, the CG's office presented an extensive report April 17 to the Attorney General and the press (a common technique in these kinds of cases), requesting a criminal investigation on the matter. According to this report, the MEC violated Paraguayan law by failing to allow parents' associations to purchase food supplies and by approving suspicious payments. Furthermore, there are strong allegations of criminal behavior regarding the misuse and misappropriation of public funds and forgeries of documents. The public contracting law was not followed since the MEC selected providers of food supplies directly,

without competition. (NOTE: The total value of the program is approximately USD 3,460,000. It is unclear, at this point, the total amount that was misappropriated. END NOTE.)

OVELAR UNDER PRESSURE

¶8. (U) Only after widespread public opinion condemning the MEC, did MEC Minister Blanca Ovelar order an internal investigation of all personnel involved in two key MEC departments responsible for the national nutritional complements program. In addition, the Ministry decided to change the vulnerable contracting system in place for the purchasing of food supplies and replace it with a more transparent public bidding process required by law. The Ministry also started the process of defining standards and specifications for food supplies to be provided to school children and has promised to install oversight mechanisms to assure proper quality and quantity of the products.

¶9. (C) Carlos Arregui, the Deputy Attorney General and Director of the Economic Crimes Unit, told PolCouns that the case had been assigned to prosecutor Rocio Vallejos of the Economic Crimes Unit for investigation. When the case first came to his attention, Arregui had been concerned that the Attorney General would look to bury the case given the fact that Education Minister Blanca Ovelar is President Duarte's preferred choice as his successor in 2008. More recently, however, Arregui indicated that while it appears a senior-level official responsible for the program is implicated in the scheme, he remarked no evidence presently implicates Ovelar in any way.

¶10. (C) COMMENT: Impunity remains a serious problem in Paraguay. (Yes, we know - shocking news though that may be.) Many of the cases presented by the Controller General's investigative support unit to the Attorney General have not yet resulted in prosecutions or convictions. This case is a clear violation of several laws but politics (again) could influence the on-going investigation. Inasmuch as Education Minister Ovelar is President Duarte's choice for President, the Attorney General will want to proceed carefully into the

investigation of this case. The excellent investigation undertaken by the Controller General's Investigation Unit funded by USAID speaks to the concrete return on our investment. At the end of the day though, turning the page on corruption ultimately relies on the political will of all players in Paraguay's justice system. It is far from apparent that all are yet on board. END COMMENT.
CASON